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ANALYZE THIS

Why your investments seldom make you happy, and what you can do about it

BY JAMES COWAN

PHOTOGRAPH BY MELISSA LYTTLE

Kathleen Gurney visited her first brokerage firm nearly three decades ago, as a young psychology professor with a burgeoning private practice and some cash to invest. She knew financial planning was important but had no clear sense of what she wanted to do with her money. The broker asked her some simple questions: When did she want to retire? How much risk was she willing to accept? But answering even these basic queries proved difficult. "I found myself giving him socially desirable answers," she says. She craved financial stability. And yet, when he asked her about risk tolerance, she responded, "Oh, well, you know, I think I'm a pretty good risk taker."

As the interview progressed, Gurney experienced what she knew, as a psychologist, was a panic attack. The fact she recognized the symptoms offered no comfort. "I lost my ability to hear what he said. I couldn't keep track of the products he offered," she says. "I left asking, 'My gosh, why was that such an uncomfortable situation for me?'"

That question became the focus of Gurney's professional career. She discovered no good psychological research had been aimed at helping investors honestly assess their financial goals, risk tolerance and attitudes toward money in general. So she spent six years developing a questionnaire to help individuals uncover their financial feelings. After testing the analytical quiz

on thousands, and then tens of thousands, of investors, Gurney claims people fit into nine "money personalities." You might be a risk-seeking "High Roller," a loss-averse "Safety Player" or a self-confident "Money Master." Your approach to stocks, bonds, retirement savings and personal debt will vary greatly depending on your personality. And before an investment adviser can analyze your finances, they need to analyze you, according to Gurney. "The ability to take risk, any risk, depends on them being comfortable with how it fits into their life," she says. "You can tell them what is good for them, but that's appealing to the rational part of their brain. But most people will make their financial decisions emotionally, not rationally."

Gurney is among a growing number of financial educators, investment advisers, brokers and wealth advisers who use lessons gleaned from psychology, cognitive theory and even neuroscience to find better ways to help their clients. Advisers now employ techniques stolen from mental health professionals to put their clients "on the couch," both to understand their motivations and assuage their fears when things go awry. And while many, like Gurney, have worked in this field for decades, interest in investor psychology has skyrocketed in recent years. The reason? It was once possible for investment professionals to pretend they were engaged in a largely rational exercise. After all the fear, sadness, anger, guilt and





recrimination brought on by the recent banking and housing crises, it is clear that emotional understanding is an integral part of financial planning.

"It's absolutely a big-time, growing field," says Frank Murtha, a New York-based psychologist and partner in MarketPsych, a consulting firm that offers training to financial advisers and similar professionals. "When we started out in 2002, nobody knew what the hell we did. Now there are more and more folks—little firms, academics, in-house advisers—who essentially do behavioural finance and work with financial advisers on how they can better meet their clients' needs."

The mounting interest in applying psychological principles to personal finance is likely part of an ongoing evolution, according to Murtha, who co-authored the book *MarketPsych: How to Manage Fear and Build Your Investor Identity*. A generation ago, he notes, most investors dealt with stockbrokers, who executed transactions on their clients' behalf, perhaps occasionally suggesting a hot pick. Over time, these professionals started offering more comprehensive financial planning and became known as financial advisers. But Murtha says the day is coming when investors visit their "financial counsellors," a semantic shift recognizing people now require emotional support along with advice on choosing the best mutual fund. "There used to be a notion that putting together a plan for a client was as simple as asset allocation; it was a pie chart," he says. "But what is the best investment for folks in theory doesn't work unless they can follow it."

Gurney describes the shift as a move from product-based to client-based investing advice. "Don't sell a product, sell a partnership," she says. And building a partnership with a client begins with determining why they are investing in the first place, according to Bruce Sellery of Moolala, a Calgary financial education firm. He argues that everyone uses money for different purposes—from facilitating adventure to serving their community to supporting their family—yet most financial planning assumes clients have one of two possible goals: preparing for retirement or accumulating more possessions. "The really great financial advisers work with clients on 'What's your life for?' And the money is the tool to reach that goal," he says. "Most of the time when you go to an adviser, they ask, 'When do you want to retire?' It's a fantastic goal, but insufficient."

The financial educator begins many of his seminars with a question: "What is money for?" If someone wants adventure and new experiences, they are better motivated with the thought they could withdraw their RRSP



ENTREPRENEUR

High-income earners who are driven by a passion for their work. They are comfortable with taking risks and fond of playing the stock market.

SAFETY PLAYER

Individuals with average incomes who prefer safe investments. They are extremely cautious and distrustful of the stock market.

MONEY MASTER

Self-confident and willing to take advice from financial planners. They are often able to accumulate money quickly, regardless of their income levels.

PRODUCER

Have a profoundly strong work ethic, but have trouble with investing. They tend to have lower incomes but are altruistic.

HUNTER

Highly educated with well-paying jobs, they tend to be impulsive in their investing decisions. Often attribute financial success to luck rather than sound planning.

HIGH ROLLER

Thrill-seekers who enjoy the challenges of investing. Prefer investments that stimulate them over those that bring financial security.

WHICH ONE ARE YOU? Psychologist and author Kathleen Gurney's nine investor personalities

contributions in five years to volunteer in Africa than with promises of an old age spent in Fort Lauderdale. "People who have a context for money that excites them are more likely to do the crappy events of filing their taxes, putting in their RRSP contributions, getting rid of their credit card debt—all that stuff which in and of itself is completely boring," Sellery says.

For their part, advisers need to show investors how their financial plans align with their larger goals. And that doesn't mean providing a mountain of information on historical returns. Sometimes, an adviser must understand a client's motivations even when the client does not. Murtha recalls one client of a colleague who inherited a substantial sum from his father's estate. But the client kept delaying transferring the money to his own adviser, leaving it in the care of the firm his father used. The client eventually said he was leaving the inheritance where it was. "Let's just work with my money," the client said.

"His wording said a lot," explains Murtha. "He didn't consider it his own money. And the adviser had failed to consider the emotions, including a little bit of guilt, a lack of ownership and maybe a feeling that taking the money would make him feel the loss of his father. If you're that adviser, you need to have some good conversations with your client. And those aren't easy. There's no magic key that unlocks the door."

In the absence of that key, investment firms are trying to develop tools that target clients' emotions along with their intellects. Twelve years ago, Denver Investments, a U.S. investment management firm, created a graph that correlates movement in the stock market with the emotional reactions of investors. The widely circulated image found renewed popularity over the past

two years. In Canada, Manulife Investments and CIBC Asset Management's Renaissance Investments were among those to republish the image. Dubbed "The Cycle of Market Emotions," the graph features an undulating line that represents peaks and troughs in the stock market. A series of markers pinpoint emotional responses to market changes. On the upward slope, the mood moves from optimism to euphoria; on the way down, emotions slide from anxiety to depression. The graph also notes that when investors are feeling euphoria, they are at their "point of maximum financial risks" while depression corresponds with the "point of maximum financial opportunity." The message? When you feel most despondent about your portfolio and are ready to abandon the market, that's the time to spend even more. And when you are feeling invulnerable? Be very, very careful. By being aware of how emotions affect decision-making, a client can learn when to listen to his gut and when to ignore it.

Within the investment community, there are numerous initiatives designed to heighten the emphasis on investor psychology. Brandes Investment Partners, the Canadian offshoot of the American investment advisory firm, encourages advisers to craft a "stress management plan" with their clients. Drafted during a stable period in the markets, the plan outlines how an investor will respond to a market crash. The idea is to have a contingency plan ready that is driven by reason rather than emotion. "[The plan]

might say you're going to reallocate to your biggest underperformer, you might take a market holiday and not check the market for 25 days," says Leah Brock, senior vice-president of marketing for Brandes. "You might say you're going to take more long walks to relieve stress."

Brandes also equips investment advisers with a whimsical tool called the Wheel of Emotion. The device is based on research that suggests investors become more anxious with the frequency they examine their statements, regardless of how the market is

performing. By spinning the wheel, clients learn they have a 93% chance of seeing a gain if they only look at their statements once a year, compared with a 54% if they look once a day. To clarify what this might mean to an investor's mood, the wheel also has a little happy face beside the data for checking yearly, and a sad, snivelling, worried face be-

side checking daily. "It's a super-effective little tool. I've even used it with my own mother," Brock says. "And now, she's comfortable to take her statements, put them in a box, not open them, and then only take a look at the end of the year if she really feels it's necessary."

Of course, addressing investors' psychological needs involves more than the use of clever gadgets. Many investment advisers now employ listening and problem-solving tools borrowed directly from the psychologist's office. Advisers who work with Brandes are equipped with a so-called "IDEAS" script, with each letter identifying a different step



**OPTIMIST**

Focused on achieving peace of mind, and willing to leave the decision-making to their financial planners.

**ACHIEVER**

Usually married college graduates, they value hard work and diligence. They are conservative in their investments but proud of their accomplishments.

**PERFECTIONIST**

They tend to be highly analytical but so concerned about making a mistake that they avoid making financial decisions.

says Brock. "We weren't designed to be savers and investors; we were designed to be hunters and gatherers. Really good advisers understand that investing for most people is a counterintuitive process."

While growing numbers of investing professionals seem ready to embrace psychological techniques, Gurney worries it might all be a fad. Finding ways to calm nervous investors may seem like a good idea after the high emotion of the past two years, but

the notion may lose its appeal once the market recovers and advisers revert to analyzing numbers, not people. "It's still very difficult to get a big institution to sign on to a different way of doing business, adopting it, training their sales force, speak to consumers in a new way," she says. "They are still very product-oriented."

There are also financial disincentives that make it difficult to build relationships with clients, particularly those with limited cash

to spend. If someone has only \$10,000 to invest, they're likely worth only a couple of hundred bucks to the adviser. "With overhead, how much time should they spend with you in order to make it profitable?" asks Sellery. "Maybe a half an hour? So the way the economics of the business is set up, it's really great at \$500,000 and above. They're not as great at \$10,000."

He adds that not all advisers are naturally inclined toward touchy-feely conversations with their clients. "Some of the people who get involved in financial advising come at it from a humanistic perspective—they want to make a difference—and some are awesome at math. That type of person might have a harder time sitting down with a client and saying, 'Let's dream.' These are tough situations."

Discomfort can be overcome with practice, Sellery says, noting that almost all financial advisers have their clients' well-being as their top priority. Even for those disinclined to look beyond their spreadsheets and pie charts, Murtha contends the evolving role of investment advisers will soon mean they could all benefit from Psychology 101.

"The emotional elements that underline the decision-making process are so integral," he says. "If you're not factoring them in, you'll get left behind." ■

in the process: Inquire about how the other person is doing; Describe things you hear; Empathize with the client; Add your own point of view; Suggest a solution. The goal is to relax an emotional client to the point where they will actually listen to advice. "The advisers who embrace the whole behavioural aspect or psychological aspect truly appreciate how psychologically challenging saving and investing can be to human beings,"

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